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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 3072

C O N F I D E N T I A L KINSHASA 3411

AIDAC

E. O. 11652: GDS

SUBJECT: STOLPER REPORT

REF: STATE 057581

1. SUMMARY: EMBASSY/ USAID HAVE REVIEWED STOLPER REPORT AND FIND IT A REALISTIC, ALBEIT BROADBRUSH ASSESSMENT OF THE ECONOMIC SITUATION IN ZAIRE AS OF SEPTEMBER 1972. CERTAIN EVENTS WHICH HAPPENED SUBSEQUENT TO STOLPER' S VISIT (E. G. COPPER PRICE INCREASE AND WORLD CURRENCY RE-ALIGNMENTS) HAVE HAD A MITIGATING EFFECT ON TWO AREAS OF THE ECONOMY WHICH CAUSED REAL CONCERN TO STOLPER NAMELY INFLATIONARY FINANCING AND THE GOZ REFUSAL TO DEVALUE THE ZAIRE. NEVERTHELESS, STOLPER' S IDENTIFICATION OF THE MOST CRITICAL PROBLEM FACING THE COUNTRY' S ECONOMY IS STILL VERY MUCH TO THE POINT: THE LACK OF AN INSTITUTIONALIZED CENTRAL GOVERNMENT MECHANISM WHICH WILL EFFECTIVELY RESTRAIN THE GROWTH OF ORDINARY EXPENDITURES PARTICULARLY IN AREAS WHICH DO NOT CONTRIBUTE QUICKLY TO GRWOTH. IT WOULD APPEAR THE GOZ WITH DONOR ASSISTANCE WILL TAKE DEFINITE STEPS DURING 1 973 TO ESTABLISH THIS DESIRED MECHANISM.

2. THE STOLPER REPORT SEEMS FACTUALLY ACCURATE, CONSIDERING THE POVERTY OF AVAILABLE MATERIAL. STLOPER PROVIDED THE DESIRED INSIGHT TO GO BEYOND THE OFFICIAL FIGURES AND CONCLUSIONS TO PICK OUT THE TRULY SIGNIFICANT TRENDS. FOR EXAMPLE, RATHER THAN ACCEPT THE ZAIRIAN THESIS OF DEPRESSED
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COPPER PRICES AS THE ROOT OF ALL BUDGETARY EVIL, STOLPER POINTED OUT THAT TOO MANY COMMITMENTS WERE MADE WHEN COPPER PRICES WERE HIGH IN 1970, SO THE SITUATION WAS AGGRAVATED BY THE DROP IN PRICES.

3. THE GOZ AWARENESS OF SUCH ITEMS AS COST EFFECTIVENESS AND BUDGETARY IMPLICATIONS OF A GROWING DEBT SERVICE (WITHOUT COMPENSATING GROWTH) APPEARS TO BE MINIMAL. THERE IS A LARGE AMOUNT OF FOREIGN EXCHANGE, COVERED MORE OFTEN THAN NOT BY LOANS, GOING TO NON- PRODUCTIVE ITEMS, THE LATEST EXAMPLE OF WHICH ARE THE MIRAGES, OR GOING TO POTENTIALLY PRODUCTIVE ITEMS, SUCH AS CIVILIAN AIRCRAFT, WHICH WILL BE DIFFICULT TO EFFECTIVELY MANAGE. PART OF THE PROBLEM IS A DIFFERENT PERCEPTION OF UTILITY; SOME NATIONS TEND TO VALUE THINGS IN MONEY TERMS; ZAIRE IS CURRENTLY STRESSING PRESITGE AND NATIONAL PRIDE.

4. IMPORT SUBSTITUTES ARE PROTECTED BY TARIFFS AND QUOTAS. AN EXAMPLE IS THE GOODYEAR TIRES NOW PRODUCED IN ZAIRE. GOODYEAR HAS A MONOPOLY TO IMPORT TIRES OF THE TYPE MADE LOCALLY TO SUPPLEMENT ITS LOCAL PRODUCTION WHEN IT FALLS SHORT OF NEEDS, AND HAS A VETO POWER OVER THE IMPORTATION OF OTHER TYPES OF TIRES. ANOTHER EXAMPLE IS FOR PORTLAND CEMENT, SUBJECT OF THE LATEST BANK CIRCULAR. IMPORTATION CAN ONLY BE PERMITTED BY SPECIAL LICENSE FROM THE BANK; THE OBJECT IS TO PROTECT THE NATIONAL CEMENT WORKS NOW BEING COMPLETED AT KIMPESE.

5. THE 1973 BUDGET ALLOWS FOR A DEFICIT OF Z.25 MILLION, WHICH IN ALL LIKELIHOOD WILL BE GREATER, AS VARIOUS PROJECTS UNDER CONSIDERATION WERE GIVEN LITTLE OR NO ALLOCATIONS. THE CAPITAL BUDGET COMES TO Z.83 MILLION (ALTHOUGH OBLIGATIONS UP TO Z.175 MILLION CAN BE MADE). THE MONEY SUPPLY HAS BEEN EXPANDING RAPIDLY (UP 24 PERCENT LAST YEAR), CHIEFLY THROUGH CERTIFICATES AND PROMISSORY NOTES FROM THE GOVERNMENT, WHICH WOULD INDICATE INFLATIONARY MEANS AS WELL.

THE 1971 ORDINARY EXPENSES WERE OVERSPENT ONLY BY 28 PERCENT WHICH IS AN IMPROVEMENT OVER 47 PERCENT FOR 1969 AND 62 PERCENT FOR 1970. MAYBE BUDGETING EXPERIENCE PROVIDED WISDOM. MAYBE THE FALL IN COPPER PRICES ENDED THE SPENDING

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SHORTFALLS AND OVERRUNS CONTINUED IN 1972. REVENUE WAS ESTIMATED AT Z.305.2 MILLION AND WAS Z.299.8 MILLION; EXPENSES WERE BUDGETED AT Z.330 MILLION BUT CAME TO Z.354.8 MILLION.

6. THE GOVERNOR OF THE CENTRAL BANK FEELS THAT THE INCREASED COPPER PRICES ARE EPHEMERAL AND THAT ANY ADDITIONAL REVENUE SHOULD BE USED TO SERVICE CURRENT DEBTS. HOWEVER, HIS FEELING IS NOT SHARED BY A FEW KEY MEMBERS OF THE GOVERNMENT WHO ARE KNOWN TO BE LOOKING AT NEW WAYS OF SPENDING THE EXCESS. THE CURRENT PRICES WHICH SO FAR THIS MONTH HAVE AVERAGED HIGHER THAN THE 1969 LEVEL ARE CONSIDERED TO BE MORE NORMAL THAN THE LEVEL OF THE LAST TWO YEARS. HOWEVER, THERE IS RECOGNITION OF THE FACTORS NOW AFFECTING THE MARKET: MONETARY INSTABILITY, UNCERTAINTY OF CHILEAN PRODUCTION, TRANSIT DIFFICULTIES FOR ZAMBIAN COPPER, AND INCREASED WORLD DEMAND; THESE FACTORS ARE EXPECTED TO LAST SOME TIME. WE SUSPECT THE SOBEING EXPERIENCE OF COPPER- PRICE FALL IN 1971 IS FRESH ENOUGH IN GOZ OFFICIALS MEMORIES TO HAVE SOME BRAKING EFFECT ON THEIR OPERATING- EXPENDITIVE DECISIONS OVER NEXT YEAR.

7. MOST APPROPRIATE ROLE FOR EXTERNAL DONORS IN ASSISTING COME- TO- GRIPS WITH WHOLE GAMUT OF PROBLEMS INDENTIFIED BY STOLPER WOULD BE ALL- OUT BACKING OF IBRD IN THE NEWLY CONCEIVED PLANNING PROJECT WHICH WILL BE OPERATING OUT OF THE OFFICE OF THE PRESIDENCY. (SEE KINSHASA 2718 AND STATE 075542 FOR CURRENT AID POSITION ON IBRD EFFORT.)

THE IBRD PLANNING PROJECT WILL INITIALLY CONCERN ITSELF WITH CENTRAL BUDGET FORMULATION AND CONTROL AND GRADUALLY EXTEND ITS ADVISORY SERVICES TO THE DEPARTMENTAL LEVEL FOR ASSISTANCE IN BUDGET SUBMISSIONS, PROJECT SELECTION, ETC. IN ADDITION, IBRD- SPONSORED ADVISORS WILL BE DELVING INTO ISSUES OF DEBT- RATIO TOLERANCE, DESIRED PRICE CONTROL FACTORS, AND GOZ FISCAL RESTRAINT.

8. IT IS RATHER AWKWARD FOR BILATERALS TO LECTURE GOZ
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OFFICIALS ON SUBJECT OF EXPENDITURE RESTRAINT WHEN ELEMENTS OF SOME EMBASSIES (NOT U. S.) ARE INTENT ON PERSUADING GOZ DEPART-
MENT OFFICIALS DESIRABILITY OF PURCHASING FOREIGN PRODUCTS WITH LITTLE REGARD TO EFFECT SUCH PURCHASES HAVE ON SHORT OR MI- TERM DEBTGARATIO. UNDER SUCH CIRCUMSTANCES THE MOST CREDIBLE NON- ZAIRIAN VOICE FOR FISCAL RESTRAINT BELONGS TO THE MULTILATERAL AGENCIES.

9. UNDOUBTEDLY, A STUDY ON REVENUE SIDE PARALLELING STOLPER' S FOCUS ON EXPENDITURES WOULD BE BENEFICIAL. BELIEVE THIS WOULD BE AMONG FIRST STUDIES COMMISSIONED BY NEW GOZ/ IBRD PLANNING UNIT.
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